

UNITED STATES OF AMERICA  
POSTAL REGULATORY COMMISSION  
WASHINGTON, DC 20268-0001

Before Commissioners:

Ruth Y. Goldway, Chairman;  
Mark Acton, Vice Chairman;  
Tony L. Hammond; and  
Nanci E. Langley

Transferring Selected Post Office Box  
Service Locations to the Competitive  
Product List

Docket No. MC2011-25

ORDER APPROVING REQUEST TO TRANSFER  
ADDITIONAL POST OFFICE BOX SERVICE LOCATIONS  
TO THE COMPETITIVE PRODUCT LIST

(Issued July 29, 2011)

I. INTRODUCTION

The Postal Service seeks to transfer Post Office Box (P.O. Box) Service in additional locations from the market dominant product list to the competitive product list.<sup>1</sup> The Commission approves the Request and will reflect the classification changes in the draft Mail Classification Schedule (MCS).

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<sup>1</sup> Request of the United States Postal Service to Transfer Post Office Box Service in Selected Locations to the Competitive Product List, May 13, 2011 (Request).

## II. BACKGROUND

### A. Initial Transfer

In March 2010, the Postal Service filed a request to add P.O. Box Service as a new competitive product and transfer a small segment of P.O. Box Service locations from the market dominant to the competitive product list.<sup>2</sup> P.O. Box Service provides customers with a locked receptacle to receive mail during specified hours of access.<sup>3</sup> The Postal Service noted that it was evaluating all P.O. Box Service locations and may propose additional transfers if justified. Initial Request at 2.

In Order No. 473, the Commission approved the Postal Service's Initial Request.<sup>4</sup> It noted that if the Postal Service proposed to offer ancillary services to P.O. Box Service, those issues would be addressed in future proceedings. *Id.* at 9-10. It also directed the Postal Service to file supporting financial data in any future request to transfer additional P.O. Box Service locations to the competitive product list. *Id.* at 14.

### B. Proposed Transfer

On May 13, 2011, the Postal Service filed the Request asking the Commission to transfer P.O. Box Service at approximately 6,800 locations from the market dominant to the competitive product list. Request at 1. These affected locations comprise approximately one-fifth of all P.O. Box Service locations and almost 44 percent of all post office boxes used by customers. *Id.* at 1-2.

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<sup>2</sup> Docket No. MC2010-20, Request of the United States Postal Service, March 12, 2010 (Initial Request). The Initial Request covered 49 P.O. Box Service locations. Request, Attachment B at 4.

<sup>3</sup> Docket No. RM2011-8, Order No. 666, Notice of Proposed Rulemaking Concerning Mail Classification Schedule, Draft Mail Classification Schedule §§ 1550.1, 2640.1, February 7, 2011.

<sup>4</sup> Docket No. MC2010-20, Order Approving Request to Transfer Selected Post Office Box Service Locations to the Competitive Product List, June 17, 2010, at 15 (Order No. 473).

The Postal Service selected the affected locations based on whether customers have sufficient access to private mailbox (PMB) service providers.<sup>5</sup> Request at 2. In general, “sufficient access” means that the affected locations serve customers who live within five miles of a current or recent PMB service provider. *Id.*, Attachment C.

The affected locations exclude some P.O. Box Service locations that would otherwise qualify as competitive under the Postal Service’s five-mile competitive criterion. Specifically, the Postal Service omitted locations that restrict customer access, such as those requiring a badge to gain access, and locations that have 250 or fewer P.O. Box Service customers.<sup>6</sup> Those locations will remain on the market dominant product list despite their proximity to a PMB service provider. *Id.*

In its Request, the Postal Service states that it increased prices for P.O. Box Service in January 2011 by 25 percent at all competitive locations. *Id.* at 4. It explains that the competitive locations experienced a higher customer non-renewal rate compared to the three-month period before the increase. *Id.* It acknowledges, however, that it obtained enough new customers to offset much of the increased rate of non-renewals. *Id.* at 9.

To support its Request, the Postal Service filed Resolution No. 11-8 of the Board of Governors, a Statement of Supporting Justification, and proposed MCS language. The Request also includes spreadsheets listing the affected locations and estimating attributable costs and cost coverages for P.O. Box Service if the Request is approved.<sup>7</sup>

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<sup>5</sup> PMB service providers are Commercial Mail Receiving Agencies (CMRAs) which are private businesses that act as the mail-receiving agent for specific clients by providing a delivery address and other services. See United States Postal Service, *Publication 32—Glossary of Postal Terms* at 44 (April 2011), available at <http://www.usps.com/publications/pubs/welcome.htm>.

<sup>6</sup> *Id.*, Attachment B at 5-6. The criterion of 250 or fewer P.O. Box Service customers is not included in the proposed MCS language, which refers to a “small customer base” without a specific definition. *Id.* Attachment C. The Postal Service explains that it needs flexibility in the MCS language to prevent P.O. Box Service locations from switching back and forth between the market dominant and competitive product lists if the number of P.O. Box Service customers exceeds or falls below 250. *Id.* Attachment B at 10 n.14.

<sup>7</sup> See Excel files “CompetitiveLocations.xls” and “POBoxServiceCostCoverage.xls” that the Postal Service submitted with its Request.

### C. Procedural History

On May 18, 2011, the Commission issued an order noticing the Request, appointing a Public Representative, and providing interested persons with an opportunity to submit comments and reply comments.<sup>8</sup>

On June 1, 2011, the Public Representative filed a motion for the Commission to issue a request to obtain more information from the Postal Service concerning details of the Request.<sup>9</sup>

### D. Chairman's Information Request No. 1

On June 6, 2011, the Commission issued Chairman's Information Request No. 1.<sup>10</sup> The Postal Service responded to CHIR No. 1 on June 13, 2011.<sup>11</sup> It filed some of the information requested under seal.<sup>12</sup>

CHIR No. 1 sought to clarify details of the Request. Specifically, it asked for information about fee groups for competitive P.O. Box Service, data on customer renewals at competitive P.O. Box Service locations, and support for the five-mile criterion identifying competitive locations.

In its Response to CHIR No. 1, the Postal Service explains that, if the Request is approved, the Postal Service plans to add more fee groups to the competitive P.O. Box Service product in a later filing. Response to CHIR No. 1, question 1. Consistent with this plan, the Postal Service states that it wishes to postpone the effective date of the transfer of the affected locations until the Commission acts on that subsequent filing. *Id.*

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<sup>8</sup> Order No. 732, Notice and Order Concerning Request to Transfer Selected Post Office Box Service Locations to the Competitive Product List, May 18, 2011.

<sup>9</sup> Public Representative Motion for Issuance of Information Request, June 1, 2011 (PR Motion). The Commission finds that the Postal Service provided sufficient information in the Request and its responses to Chairman's Information Request No. 1. Thus, the PR Motion is denied.

<sup>10</sup> Chairman's Information Request No. 1, June 6, 2011 (CHIR No. 1).

<sup>11</sup> Responses of the United States Postal Service to Questions 1-3 of Chairman's Information Request No. 1, June 13, 2011 (Response to CHIR No. 1).

<sup>12</sup> Notice of the United States Postal Service of Filing of USPS-MC2011-25/NP1, June 13, 2011. This filing includes an application for non-public treatment of materials.

The Postal Service confirms that the total number of customers at current competitive locations whose contracts were up for renewal was 13,284 for the months of February, March, and April 2011. *Id.* question 2. The Postal Service supports the five-mile competitive criterion by describing the research and information supporting its determination. *Id.* question 3. It also provides the results of a data-mining study of its P.O. Box Service customers under seal. *Id.*

### III. COMMENTS

On June 10, 2011, the Commission received two comments on the Request from the Public Representative and David B. Popkin (Popkin).<sup>13</sup> The Postal Service submitted reply comments on June 17, 2011.<sup>14</sup>

#### A. Initial Comments

Both the Public Representative and Popkin oppose the Request. The Public Representative contends that data from the 25 percent price increase at competitive locations show that the Postal Service exercises sufficient market power over competitive P.O. Box Service. PR Comments at 3. She argues that the price increase demonstrates the Postal Service's ability to raise prices significantly and set them substantially above cost. *Id.* at 3, 5. She avers that the price increase indicates that prices for P.O. Box Service are relatively inelastic, which suggests market or monopoly power. *Id.* at 4. She maintains that the limited availability of post office boxes is further evidence of market power because the Postal Service can constrain the number of post

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<sup>13</sup> Initial Comments of David B. Popkin, June 10, 2011 (Popkin Comments); Public Representative Comments on Postal Service Request to Transfer Selected Post Office Box Service Locations to the Competitive Product List, June 10, 2011. The Public Representative subsequently filed revised comments. See Public Representative Comments on Postal Service Request to Transfer Selected Post Office Box Service Locations to the Competitive Product List, June 13, 2011 (PR Comments); see also Public Representative Notice of Errata to Comments on Postal Service Request to Transfer Selected Post Office Box Service Locations to the Competitive Product List, June 13, 2011.

<sup>14</sup> Reply Comments of the United States Postal Service, June 17, 2011 (Postal Service Reply Comments).

office boxes while replacing most of the non-renewing customers with new customers. *Id.* at 4-5.

Both the Public Representative and Popkin allege that customers incur significant transaction costs when they terminate P.O. Box Service, which include finding alternative P.O. Box Service, filing change-of-address forms, and buying new stationery. PR Comments at 4; Popkin Comments at 2 n.2. The Public Representative contends that these transaction costs are likely to far outweigh a P.O. Box Service price increase. PR Comments at 4. Similarly, Popkin argues that existing P.O. Box Service customers would have to make a “major undertaking” to switch to a PMB service provider. Popkin Comments at 1-2.

Both the Public Representative and Popkin assert that PMBs and P.O. Box Service cannot be competitive alternatives because each provides fundamentally different services. They argue that P.O. Box Service offers a perceived greater level of security, earlier access to the mail, and six-day delivery. PR Comments at 6; Popkin Comments at 3. By contrast, they observe that PMBs offer different services, such as street addresses, mail receipt notifications, acceptance of items from private carriers, and specific mail forwarding. *Id.* The Public Representative also avers that price differences between P.O. Box Service and PMBs demonstrate that they are differentiated products serving the same market. PR Comments at 6.

Both the Public Representative and Popkin criticize the Postal Service’s five-mile criterion for selecting competitive P.O. Box Service locations. The Public Representative asserts that proximity is misleading for purposes of analyzing competition because it “is not a sufficiently compelling factor governing consumer choice that overrides all other service features distinguishing [P.O. Box Service] from PMBs.” *Id.* Likewise, Popkin maintains that the Postal Service does not adequately explain why five miles was chosen or how the five-mile criterion was determined. Popkin Comments at 1.

## B. Reply Comments

In its reply comments, the Postal Service contends that it lacks sufficient market power over competitive P.O. Box Service despite the 25 percent price increase implemented in January 2011. Postal Service Reply Comments at 1-2. It asserts that it lost a significant portion of its customers due to the price increase. *Id.* at 2. The Postal Service explains that its success in replacing non-renewing customers derives from service enhancements at some of the competitive locations. *Id.* at 2-3. It avers that 41.7 percent of post office boxes at current competitive locations are vacant, which demonstrates that it did not obtain new customers by constraining the number of post office boxes. *Id.* at 3.

The Postal Service acknowledges that switching from P.O. Box Service to PMBs involves some transaction costs. *Id.* at 4. However, the Postal Service maintains that these costs would be incurred for any type of change in service. *Id.* (quoting Order No. 473 at 11). It argues that existing customers' demand is more likely to be price elastic than inelastic. *Id.* at 5.

The Postal Service contends that any differences between P.O. Box Service and PMBs do not change the fact that each essentially offers the same proposition: "the ability to receive mail and parcels at an address other than an individual or business's street address, for a fee." *Id.* It asserts that some competitive locations already offer similar services compared to those offered by PMB service providers. *Id.* at 6. It explains that prices for P.O. Box Service and PMBs differ because of statutory constraints on Postal Service pricing. *Id.* at 7.

The Postal Service believes that proximity is "the most useful criterion" for determining whether a particular P.O. Box Service location competes with a PMB. *Id.* at 8. The Postal Service avers that it adequately explained in its Response to CHIR No. 1, why five miles is the appropriate distance for determining competitiveness. *Id.*

#### IV. COMMISSION ANALYSIS

The Commission has reviewed the record in this proceeding, including the Request, supporting materials, all comments received, and the Response to CHIR No. 1. The Commission has also considered all applicable statutory and regulatory requirements. Based on this evaluation, the Commission approves the Request.

##### A. Product List Requirements

All transfers of products between the market dominant and competitive product lists must meet the requirements of 39 U.S.C. § 3642. The Commission discusses each requirement below and applies it to the Request.

##### 1. Classification as a Competitive Product

When evaluating the Request under section 3642, the Commission must assign the affected locations to either the market dominant or competitive product list. The market dominant category consists of those products over which the Postal Service exercises sufficient market power that it can effectively set the price substantially above costs, raise prices significantly, decrease quality, or decrease output, without risking significant loss of business to other firms offering similar products. 39 U.S.C. § 3642(b)(1); 39 CFR 3020.32(d). The competitive category consists of all other products. 39 U.S.C. § 3642(b)(1).

In this case, the Commission must confirm that the affected locations are properly categorized as competitive. This analysis involves examining the Postal Service's market power over the affected locations and the five-mile criterion for classifying P.O. Box Service locations as competitive.

*Market power.* The Commission concludes that the Postal Service does not exercise sufficient market power over the affected locations for them to be considered market dominant. In Docket No. MC2010-20, the Commission found that the availability of PMBs within one-half mile of P.O. Box Service locations “constrains the Postal Service’s ability to raise prices significantly, decrease quality, or decrease output without risk of losing a significant level of business to firms offering similar products.”



Order No. 473 at 11. Likewise, as discussed in more detail below, the Postal Service's market power over the affected locations is restricted by the availability of PMB service providers located within five miles of consumers served by P.O. Box Service locations. The Postal Service is also constrained by its own alternative offerings, such as carrier delivery and nearby market dominant P.O. Box Service locations. *Id.*; Request, Attachment B at 4.

The Public Representative argues that the Postal Service exercises sufficient market power based on data from the 25 percent price increase. PR Comments at 3-5. The data, however, show that the number of customers who did not renew competitive P.O. Box Service increased 14 percentage points after the price increase took effect.<sup>15</sup> Although the Postal Service offset part of that loss with new customers, it states that it has been unable to replace approximately 30 percent of non-renewing customers with new customers. Postal Service Reply Comments at 2. The Postal Service asserts that its success in obtaining new customers derives from service enhancements offered at some competitive P.O. Box Service locations such as expanded access hours, signature-on-file service, and the "Baker's Dozen" pricing incentive. *Id.* at 2-3.

The Commission finds that the increase in non-renewing customers and the inability to replace many of them with new customers demonstrate that the Postal Service is unable to raise prices significantly without losing a significant level of business. As such, the Postal Service does not exercise sufficient market power over the affected locations for them to be considered market dominant.

*Five-mile criterion.* The Commission finds that the five-mile criterion is an appropriate metric for classifying competitive P.O. Box Service locations. In the Request and Response to CHIR No. 1, the Postal Service explains in sufficient detail why it chose five miles as the proper distance.

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<sup>15</sup> In the three-month period before the price increase, the non-renewal rate was 11 percent. Request, Attachment B at 4. The non-renewal rate was 25 percent during the three months after the price increase. Response to CHIR No. 1, question 2.

The Postal Service states that based on a 2003 study it conducted, customers are generally willing to travel up to 20 minutes to obtain postal services. Response to CHIR No. 1, question 3. The Postal Service believes that five miles is a reasonable national proxy for the distance covered by up to 20 minutes of travel. *Id.* It acknowledges that 20 minutes of travel may cover more or less than five miles depending on local factors. *Id.*

The Postal Service explains that it first developed the five-mile criterion in 2004 to support a program that would increase the hours of service at post offices in certain areas. *Id.* Before implementing that program, the Postal Service surveyed the retail marketing managers of the affected areas. *Id.* According to the Postal Service, the managers confirmed that, based on their understanding of customer behavior, customers were willing to travel up to 20 minutes for postal services and that five miles was, in general, an appropriate proxy for 20 minutes of travel. *Id.* The Postal Service also supports the five-mile criterion with findings from a data-mining study of P.O. Box Service customers, which the Postal Service filed under seal. *Id.* Commission staff have reviewed the study and agree that the five-mile criterion is an approximate metric for classifying competitive P.O. Box Service locations.

Based on the above analysis, the Commission finds that the affected locations are properly classified as competitive.

## 2. Other Criteria Under Section 3642

When evaluating the Request, the Commission must also consider several other criteria under section 3642(b)(3), including the availability and nature of private sector enterprises engaged in delivering the product, the views of those using the product, and the likely impact on small business concerns.<sup>16</sup>

*Private sector enterprises.* Many private sector enterprises, such as PMB service providers, offer the same basic service as P.O. Box Service. The Commission

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<sup>16</sup> 39 U.S.C. § 3642(b)(3); 39 CFR 3020.32(f)-(h). In addition, products that are covered by the postal monopoly may not be transferred from the market dominant to the competitive product list. 39 U.S.C. § 3642(b)(2); see 39 CFR 3020.32(e).

finds that PMBs are private sector alternatives for P.O. Box Service despite differences in services offered. As the Commission previously stated, “the two products are close substitutes for one another....[because] [t]he fundamental purpose of each is to serve as a paid receptacle for receipt of correspondence and packages sent to the addressee.” Order No. 473 at 10. Any differences in services offered simply distinguish the products offered to the public. *Id.*

The Commission also finds that PMBs are private sector alternatives despite any differences in price compared to P.O. Box Service. In its Request, the Postal Service cites to comments in Docket No. MC2010-20 from PMB service providers. Request, Attachment B at 8-9 (citations omitted). According to the comments, PMB service providers would like the Postal Service to increase prices for P.O. Box Service because they are generally lower than PMB prices. *Id.*

Different prices for P.O. Box Service are explained by statutory constraints on Postal Service pricing. Under the Postal Accountability and Enhancement Act (PAEA),<sup>17</sup> P.O. Box Service existed solely as a market dominant product within the Special Services class, which is limited by a price cap equal to the change in the Consumer Price Index for All Urban Consumers. See 39 U.S.C. § 3622(d)(1)(A). Although the price cap applies to the Special Services class as a whole, the price cap serves to moderate price increases for P.O. Box Service. Under the PAEA, average price increases for P.O. Box Service have been close to the price cap in effect at the time.<sup>18</sup>

P.O. Box Service was not added to the competitive product list until June 2010, and only selected P.O. Box Service locations were transferred. Order No. 473 at 2, 16.

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<sup>17</sup> Pub. L. No. 109-435, 120 Stat. 3198 (2006).

<sup>18</sup> See Docket No. R2011-2, Order No. 675, Order Revising Postal Service Market Dominant Price Adjustments, February 16, 2011, at 52-53 (average P.O. Box Service price increases of 2.22 percent; price cap of 1.74 percent); Docket No. R2009-2, Order No. 191, Order Reviewing Postal Service Market Dominant Price Adjustments, March 16, 2009, at 65-66 (average P.O. Box Service price increases of 3.79 percent; price cap of 3.80 percent); Docket No. R2008-1, Order No. 66, Review of Postal Service Notice of Market Dominant Price Adjustment, March 17, 2008, at 53-54 (average P.O. Box Service price increases of 2.96 percent; price cap of 2.90 percent).

The Postal Service thus has had limited opportunity to raise prices for P.O. Box Service to mirror those of PMBs.

Popkin argues that one major distinction between PMBs and P.O. Box Service is that the Postal Service will continue to deliver mail to post office boxes six days a week under its plan to implement a five-day delivery schedule.<sup>19</sup> By contrast, PMBs will only receive five-day delivery. Popkin Comments at 3. Many commenters raised similar concerns about five-day delivery in Docket No. MC2010-20.<sup>20</sup>

Although proceedings in Docket No. N2010-1 have concluded, the Postal Service's plan to implement five-day delivery is pending before Congress. Congress must make legislative changes before the Postal Service is able to move to a five-day delivery schedule. If issues arise relating to six-day delivery to post office boxes, the Commission will address them in a future proceeding, and interested persons will have an opportunity to express their views.

*Views of those using the product.* In its Request, the Postal Service considers the views of P.O. Box Service customers and acknowledges that some may oppose the Request because of potential price increases beyond what is permissible for market dominant P.O. Box Service locations. Request, Attachment B at 7. At the same time, the Postal Service contends that some customers may support the Request because of enhanced services at competitive locations, including expanded lobby hours, signature-on-file service, and "Baker's Dozen" pricing offers. *Id.*

Comments from the Public Representative and Popkin also express the views of P.O. Box Service customers. In addition to the concerns described above, both the Public Representative and Popkin allege that the transaction costs incurred when terminating P.O. Box Service would constrain existing customers from switching to PMBs in response to a price change. However, as the Commission previously found,

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<sup>19</sup> Popkin Comments at 3; see Docket No. N2010-1, Advisory Opinion on Elimination of Saturday Delivery, March 24, 2011, at 14.

<sup>20</sup> See, e.g., Docket No. MC2010-20, Comments of National Association of Retail Ship Centers, March 31, 2010, at 2-3; Comments of Mail & More of Tega Cay, March 31, 2010.

these transaction costs do not justify rejecting the Request. Order No. 473 at 11. To be sure, customers will incur transaction costs anytime they opt for a new service provider. *Id.* A decision to change providers is an individual choice based, in part, on balancing the tradeoffs involved. *Id.* Although customer demand may vary, no customer is locked into its existing service provider. *Id.* at 12. Alternatives to P.O. Box Service are available even if customers do not choose them. *Id.*

*Likely impact on small business concerns.* The Commission must determine the likely impact of the Request on PMB service providers, many of which represent small business concerns.<sup>21</sup> PMB service providers actively participated in Docket No. MC2010-20, filing 36 out of the 42 comments received by the Commission. See Order No. 473 at 5 n.9. By contrast, in this proceeding, the Commission received two comments from interested persons and one reply comment from the Postal Service. Notably, no PMB service provider or other small business concern filed any comments or otherwise objected to the Request. While not dispositive, this suggests that the initial transfer of P.O. Box Service locations appears to not adversely affect small business concerns. Thus, it appears approving the Request will likely have minimal negative impact on them.

Having considered relevant statutory and regulatory requirements and the record in this proceeding, the Commission finds that the Request meets the requirements of 39 U.S.C. § 3642.

#### B. Section 3633(a) Requirements

The Postal Service must explain why the Request “will not result in the violation of any of the standards of 39 U.S.C. 3633[.]” 39 CFR 3020.32(c). The Postal Service must demonstrate that the competitive P.O. Box Service product covers its attributable

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<sup>21</sup> *Id.* at 13. PMB service providers are Private Mail Centers, “establishments primarily engaged in providing mailbox rental and other postal and mailing (except direct mail advertising) services....” NAICS Association, 561431 Private Mail Centers, available at <http://www.naics.com/censusfiles/ND561431.HTM>. According to SBA regulations, Private Mail Centers qualify as small business concerns if their annual receipts do not exceed \$7 million. 13 CFR 121.201.

costs, contributes to the Postal Service's institutional costs, and prohibits market dominant products from subsidizing competitive products. See 39 U.S.C. § 3633(a).

The Postal Service presents a cost analysis showing that, if the Request is approved, the competitive P.O. Box Service product will have an estimated cost coverage of 143 percent. Request, Attachment B at 3. The Commission has also conducted a financial analysis of the data and finds that the Request complies with section 3633. Thus, an initial review of the record indicates that the proposed transfer comports with provisions applicable to rates for competitive products.

### C. Other Considerations

The Request does not state how it will develop and report costs for service enhancements offered at competitive P.O. Box Service locations. The Commission directs the Postal Service to explain how it will develop and report these costs when it proposes to change prices for competitive P.O. Box Service.

## V. CONCLUSION

In summary, the Commission approves the Request to transfer P.O. Box Service in additional locations from the market dominant product list to the competitive product list. The related classification changes will be reflected in the draft MCS.<sup>22</sup>

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<sup>22</sup> As indicated in previous orders, the language suggested by the Postal Service in its filing is illustrative and subject to change in the MCS that the Commission ultimately adopts.

*It is ordered:*

The Commission grants the Postal Service's request to transfer P.O. Box Service in additional locations from the market dominant product list to the competitive product list.

By the Commission.

Shoshana M. Grove  
Secretary